

State Government Commute Trip Reduction Plan

Employee Subsidy Tracking Guidelines

Adopted by Interagency Task Force July 6, 1998

Introduction

The subsidy tracking guidelines are supplemental to the *Use of Public Funds in State Agency CTR Programs* guidelines adopted by the Interagency Task Force (ITF), January 1997. These guidelines are designed to provide a process for agencies to follow when they offer CTR subsidies and/or incentives to their employees.

Background

RCW 43.01.230 authorizes state agencies to use public funds to “financially assist agency-approved incentives for alternative commute modes, including but not limited to carpools, vanpools, purchase of transit and ferry passes, and guaranteed ride home programs, if the financial assistance is an element of the agency’s commute trip reduction program as required under RCW 70.94.521 through 70.94.551.” Agencies are also required to comply with IRS codes.

The Washington State Constitution (Article 8, Section 5) does not allow the State to give or lend credit to individuals, associations, companies or corporations. Giving an employee a subsidy *before* the employee has met the requirements of the agency’s CTR program would be considered a loan of the state’s credit. To avoid any questions, agencies must adopt a policy of **reimbursement** to the employee rather than a policy for pre-payment.

Because state agencies use public funds to support CTR subsidies and incentives, agencies must provide documentation that the public funds are used prudently as well as effectively. Agencies must be able to document to an auditor that the funds were used legally and that care is taken so that the subsidy program does not abuse the principle of the lending of public credit.

For auditing purposes, agencies must be able to provide documentation that the employees receiving subsidies or incentives for using an alternative commute mode did indeed use the alternative commute mode *prior* to receiving the compensation/subsidy.

Definitions

- ◇ **Subsidy:** Financial assistance given by one person or government to another. (Webster)
Subsidize: To support or assist with a subsidy. (Webster)
Subsidies and CTR: Financial assistance provided to state employees using alternative commute modes and as an incentive in CTR program elements. Alternative commute modes include walking, biking, bus, rail, ferry, carpools and vanpools. (Employees are not usually provided financial assistance for telework or alternative schedules such as the compressed workweek as these work options are considered as incentives in themselves.)
- ◇ **Incentive:** Elements of a CTR strategy designed to motivate or encourage employees to use alternative commute modes. (State Government CTR Plan)
- ◇ **Commuter Bonus Voucher Program:** A voucher of various dollar denominations that can be purchased from transit agencies. The vouchers are not redeemable for cash but may be used as cash to purchase or to offset the purchase of bus, rail, or ferry passes, and/or vanpool fares.

Commuter Bonus Vouchers are **nontaxable** to the employee if given in an amount at or below the rate established in federal regulations. (The 1998 rate is \$65/per month.)

- ◇ **Commuter Bonus Plus Voucher Program:** A voucher of various dollar denominations that can be purchased from transit agencies. The vouchers are not redeemable for cash but may be redeemed for merchandise at BP Service Stations, Firestone Service Centers, REI, and AAA. The vouchers may be used as a subsidy and/or incentive to employees who walk, bicycle or carpool as their alternative commute mode. There are some restrictions on what may be purchased – vouchers may not be used for any food item, cigarettes, or other non-commute item at BP stations. Commuter Bonus Plus vouchers are **taxable** to the employee if provided as a subsidy/incentive on a regular basis.

IRS Rules:

- ◇ Subsidies for bus, vanpool, rail, and/or ferry are **not taxable** to the employee if the subsidy is at or below the rate established in federal regulations. (The 1998 IRS ceiling is \$65/month, Section a32(f)(2)(A).) IRS rules state that the employer may provide cash reimbursement if a “voucher or similar item that may be exchanged only for a transit (bus, vanpool, ferry) pass is not readily available for direct distribution to the employee.” In other words, if vouchers or transit passes are not available from transit agencies.

Note: If the amount of subsidy provided to an employee for bus/vanpool/ferry exceeds the actual cost of the fare, the amount above fare cost is taxable to the employee. For example if the cost of a bus pass is \$20/month and the agency pays the employee \$30 to use the bus, \$10 of the subsidy would be taxable to the employee.

- ◇ Subsidies/incentives for carpool, walking, and/or biking **are taxable** income.
- ◇ Incentives and promotional items given randomly or as promotional items are considered de minimis (not significant) and are **not taxable** to the employee unless given to the same employee on a regular basis.
- ◇ Parking is considered a Qualified Transportation Benefit to the employee by IRS, Section 132(f)(2)(B). IRS rules currently (tax year 1998) allow a tax-free parking equivalent of \$175 per month. If the value of an employee’s parking space is valued at more than \$175/month, any amount over \$175 is taxable to the employee.

Note: Updates on the Qualified Transportation Benefit levels will be provided to state agencies when the allowable rates change.

Subsidy Payments

Agencies that choose to provide financial subsidies to employees must ensure that the program usage is well documented. The subsidies/incentives provided to the employee must be a reimbursement (reward) for using an alternative commute mode rather than a pre-paid subsidy or incentive for commute trips not yet taken.

Documentation

CTRCs or ETCs who have been given the authority to verify employees’ commute modes and provide approval for subsidy payment must be able to provide documentation that the employee has met the agency’s CTR policy criteria for alternative commute mode use and therefore entitled to the subsidy.

A “policy of reimbursement” means that the employee must pay the cost for his/her first month’s commute and then request the subsidy as a reimbursement.

Example 1: Tom decided to commute by bus beginning in January and his agency provides up to \$20 a month subsidy towards a bus pass. Tom buys a monthly bus pass from his local transit agency and keeps his receipt. At the end of January, Tom takes his receipt to his ETC and requests his reimbursement. The ETC gets Tom's signature acknowledging that he has met the agency's CTR criteria and gives him a commuter bonus voucher (which Tom also signs) worth \$20. Tom takes the voucher to the transit agency and uses it to purchase a monthly pass for February. This same process would hold true for vanpools and ferries. One-year later, Tom leaves the agency. He may receive his last month's bus subsidy as a tax-free cash reimbursement on his last payroll check. *Note:* None of the subsidies (for bus, vanpool or ferry) would be taxable to the employee at or below the rate established in federal regulations (currently at \$65/month) even if the employee were receiving cash rather than a voucher.

Example 2: Sally commutes three to four times a week by bicycle, Roger walks daily, and Sue and John are in carpools. The agency's CTR program provides a taxable \$25/month cash subsidy for these modes. At the end of the first month, each employee submits a signed calendar showing the days each commuted in an alternative mode. At the end of each quarter, the ETC provides the names and amount of taxable subsidy to the payroll office. The subsidy amount is added to the employees' paycheck and the proper taxes are withheld.

Flexpass Program

An option available to some state worksites is a program whereby bus/vanpool passes are purchased for all employees. The cost to the agency/worksites is based on the current level of ridership determined by a survey (either the most recent employee CTR survey or one conducted by the local transit agency). Currently, state agencies in King County have the option of participating in the Flexpass Program at King County Metro. This flexpass-type program is being developed in other CTR counties where it may soon be available.

Employees must register with their ETC to receive their flexpass and may use it on buses or ferries and/or towards vanpool fares. The pass may not be used by anyone else and may also be used for non-commuting transit trips. Again, if the value to the employee is at or below the rate established in federal regulations (currently \$65) or less per month, the flexpass is nontaxable to the employee.

Agency Subsidy Policies

Agencies providing CTR subsidies must adopt and make available to their employees a CTR subsidy reimbursement policy. This is crucial, especially if employees are receiving cash, because the employee may use the cash for any purpose. The policy must outline how employees will provide the documentation that they have met the agency's minimum CTR requirements. Bus, vanpool and ferry subsidies at or below the rate established in federal regulations (currently \$65 per month) are not taxable to the employee. All subsidies for carpooling, walking, and bicycling are taxable to the employee.

- ◇ Documentation must be kept by the agency for each general accounting period.
- ◇ CTRCs/ETCs must keep a log (or similar documentation) that is signed by the employee(s) stating that the conditions of the agency's CTR subsidy program have been met.
- ◇ Documentation must have an original signature. Faxed signed statements are acceptable. Examples of documentation may include:
 - ◆ Signed state A-19 forms
 - ◆ Signed monthly calendars – of own design or from *CTR Track* Program

- ◆ Signed receipts from purchased bus and/or ferry passes or vanpool fares
- ◆ Signed vouchers
- ◆ Other signed documentation method that has been approved by the agency

Agencies must keep a log of any winners in CTR promotional drawings when prizes are provided. For additional information, refer to *Use of Public Funds in State Agency CTR Programs, Guidelines for State Agencies*, January 1997.

Suggested Minimum Requirements

Employees must meet the agency's CTR criteria to receive subsidies for alternate commute modes.

Examples:

- ◇ Employees must use the mode for which they are receiving the subsidy for at least fifty percent of their workweek. (50+ percent of a 5-day, 4-day etc. workweek).
- ◇ Employees who normally use an alternate commute mode may receive the subsidy on a sliding scale for months when 50+ percent participation was not met due to sickness, annual leave, extensive work-related travel or for other reasons decided by the agency.
- ◇ Subsidies may be set up on daily use basis (i.e. \$.50/day). Once the daily use subsidy amount reaches the 50+ percent threshold, a monthly subsidy maximum should be awarded.
- ◇ To avoid abuse, employees must travel using the mode for which they are receiving the subsidy for more than half of their commute trip. If it is truly a 50/50 split, the agency must make the determination for the mode subsidy, but in no case shall an employee receive a subsidy for more than one mode.

Payment Methods:

- ◇ Transit (bus, vanpool, ferry) subsidies must be paid in voucher or other similar manner that can be exchanged only for a bus/ferry pass or vanpool fare. The only exception would be if it could be documented that a voucher is not readily available for direct distribution by the employer to the employees. Transit passes may be provided in lieu of a voucher.
 - ◇ Subsidies for non-transit modes (carpool, walking, biking) are taxable and should be paid at least quarterly. The most convenient method would be through payroll deduction since income tax must be withheld.
 - ◇ Subsidies may be set on a per-use system. (For example, 50 cents per each day carpooling.) Once the employee has reached the agency's threshold for participation for the month (for example 50+ percent) the full subsidy would be received.
 - ◇ Parking Reimbursement: If an agency's CTR Program's carpool incentive includes reimbursement for parking already paid by the employee, the agency may *reimburse* the employee no more than the actual cost of the parking fee. Example: Agency A's carpool policy offers free parking to two-person or more carpools. The parking fee on the Capitol Campus for a two-person carpool is currently \$7.50 per person per month. Agency A may *reimburse* the employee the \$7.50 monthly parking fee as part of their carpool incentive policy. The reimbursement may be requested on the employee's travel voucher. Documentation of payment (i.e. payroll deduction) must be presented.
- Note: if an employee were to receive more than their actual parking fee, the additional amount provided would become a subsidy and would be subject to the IRS rules.